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FARMERS' NEWSLETTER

Feed



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PROCUREMENT SECTION
November 78/F-7
CURRENT SERIAL RECORDS

Despite record feed grain production and supplies for the 1978/79 marketing year, harvest-time prices are higher than a year ago.

You may be thinking about selling all or part of your crop now to take advantage of these prices. Your decision depends on your individual situation, and no two producers have the exact same circumstances. But for most farmers, whether to hold or sell hinges on these factors:

- Adequacy of storage. Can you maintain quality while waiting for a seasonal price improvement? A higher price may not help if your dockage increases because of poor quality.

- Local transportation situation. Has the harvest glut been cleared out? If not, prices could improve in your area after the transportation system catches up with local supplies.

- Tax considerations. Do you need to postpone income until 1979? But even if you don't need the income in 1978, you can still sell grain now for delivery next year.

- Reserve eligibility. Are you eligible for the farmer-owned reserve program? If you have 1977 CCC feed grain loans outstanding, you could put some grain in the reserve. The 1978 crop corn is no longer eligible for immediate entry into the reserve, but 1978 program participants have established basic eligibility for reserve participation if it should be reopened later.

- But finally, it comes down to this: Do you expect grain prices in your area to improve by more than the cost of storage?

Feed Livestock?

You may be considering marketing some grain through a livestock feeding operation. Livestock prices have been somewhat favorable, and should be through at least most of next year. But if you have to buy feeder cattle or pigs, the profit margins may be thin. Feeder prices have moved up right along with the improvements in slaughter animal prices.

With limited supplies of young livestock coming to market in 1979, the profit squeeze on feeders likely will continue. If you buy feeder animals now for sale next year, you're betting that slaughter animal prices will improve in 1979.

To help in making this decision, we have provided examples for beef cattle and hog feeding. Space is left beside each example for you to put in your prices and quantities.

Fall Prices Better Than Expected

Grain prices have remained stronger than many analysts predicted, even though favorable weather helped lead to a rapid harvest and some transportation shortages. But instead of the glut and selling binge that normally follows bumper crops, farmers made good use of available storage and re-

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COST AND RETURNS FROM HOG FEEDING

| Item | Example (Corn Belt) | | | Your Analysis | | |
|--------------------------------------|-----------------------|-----------------------|------------|----------------|---------|---------|
| | Quantity ¹ | Price | Value | Quantity | Price | Value |
| Cost per head (current) ² | | | | | | |
| 1. Feeder animal | 45 lbs. | X \$ 1.10 | = \$ 49.50 | _____ X _____ | = _____ | |
| 2. Corn | 11 bu. | X \$ 1.95 | = \$ 21.45 | _____ X _____ | = _____ | |
| 3. Protein supplement | 1.3 cwt. | X \$13.15 | = \$ 17.10 | _____ X _____ | = _____ | |
| 4. Other ³ | | | = \$ 19.14 | | | = _____ |
| 5. Total | | | = \$107.19 | | | = _____ |
| Receipts per head (expected) | | | | | | |
| 6. Barrow and gilt | 220 lbs. | X \$.50 ⁴ | = \$110.00 | _____ X _____ | = _____ | |
| Returns per head (expected) | | | | | | |
| 7. Line 6 - line 5 | | | = \$ 2.81 | | | = _____ |
| Break-even price (\$ per lb.) | | | | | | |
| 8. Line 5 ÷ 220 | | | = \$.49 | Line 5 ÷ _____ | = _____ | |

¹ Estimated feed required to go from a 45-pound feeder to a 220-pound hog. ² Approximate costs to grain-livestock farmers in corn belt as of late November. ³ Labor, veterinarian fees, medicine, interest on purchase, power, equipment, fuel, shelter depreciation, death losses, marketing expenses, etc. ⁴ USDA price forecast of barrows and gilts at 7 major markets during spring of 1979.

strained sales so that prices didn't fall as sharply as last year.

The reserve program and strong export demand also helped prices. As a result, the higher-than-expected prices have already helped pay a part of storage costs.

Pricemakers To Keep An Eye On

The feed grain crop is now forecast at a record 211 million metric tons, but prices remain less certain.

Here's what to watch:

- domestic and foreign demand
- the dollar's position against world currencies
- loan activity
- farmer-owned reserves
- 1979 crop prospects

Exports tend to grab the spotlight, but domestic demand remains the main force behind grain prices. Plagued by low returns until recently, U.S. livestock feeders are expanding now that profits are back up. Look for cattle, hogs, and poultry to take 6 to 7 percent more grain than in 1977/78.

On the foreign side, exports will continue heavy, but probably will not match last year's record. Favorable weather has resulted in a record world feed grain crop, thus reducing demand for U.S. grain.

But while some countries will be buying less, the Chinese are back in the U.S. market. The People's Republic of China had bought 2.2 million tons (90 million bu.) of corn from us as of late November, their first purchase since 1973/74.

On balance, total domestic use plus exports assure record disappearance, but record large supplies may temper price gains over the next few months.

However, keep an eye on inflation and how the dollar stacks up against other currencies. Devaluation of the dollar makes U.S. grains more attractive to some foreign buyers and tends to push up prices here at home.

Loan activity and the amount of grain held in the farmer-owned reserve will play a big role in prices next spring and summer. Obviously, the more grain isolated from the market under the two programs, the stronger the price.

COST AND RETURNS FROM BEEF CATTLE FEEDING

| Item | Example (Corn Belt) | | | | Your Analysis | | |
|--------------------------------------|-----------------------|-----------------------|---|----------|----------------|-------|---------|
| | Quantity ¹ | Price | | Value | Quantity | Price | Value |
| Cost per head (current) ² | | | | | | | |
| 1. Feeder animal | 600 lbs. | X \$.60 | = | \$360.00 | _____ X _____ | = | _____ |
| 2. Corn | 45 bu. | X \$ 1.95 | = | \$ 87.75 | _____ X _____ | = | _____ |
| 3. Protein supplement | 2.7 cwt. | X \$ 9.95 | = | \$ 26.86 | _____ X _____ | = | _____ |
| 4. Silage | 1.7 tons | X \$17.75 | = | \$ 30.17 | _____ X _____ | = | _____ |
| 5. Hay | 0.2 tons | X \$48.3 | = | \$ 9.66 | _____ X _____ | = | _____ |
| 6. Other ³ | | | = | \$ 70.35 | | | = _____ |
| 7. Total | | | = | \$584.79 | | | = _____ |
| Receipts per head (expected) | | | | | | | |
| 8. Steer | 1,050 lbs. | X \$.58 ⁴ | = | \$609.00 | _____ X _____ | = | _____ |
| Returns per head (expected) | | | | | | | |
| 9. Line 8 - line 7 | | | = | \$ 24.21 | | | = _____ |
| Break-even price (\$ per lb.) | | | | | | | |
| 10. Line 7 ÷ 1,050 | | | = | \$.56 | Line 7 ÷ _____ | = | _____ |

¹ Estimated feed required to go from a 600-pound feeder to a 1,050-pound steer. ² Approximate costs to grain-livestock farmers in corn belt as of late November. ³ Labor, veterinarian fees, medicine, interest on purchase, power, equipment, fuel, shelter depreciation, death losses, marketing expenses, etc. ⁴ USDA price forecast of 900-1100 pound steers at Omaha during April-June 1979.

By late November, producers had put almost 550 million bushels of corn (17 million metric tons of total feed grain) in the farmer-owned reserve. Some 600 to 700 million bushels of corn may wind up in the farmer-owned reserve and CCC inventory by winter's end. This grain cannot be sold until corn prices reach at least a \$2.50 per bushel national average price.

In addition, something like 350 to 500 million bushels of 1978 crop corn might be placed in the loan program. Grain in the regular CCC loan program will be held off the market unless prices are high enough to encourage redemption.

Price changes over the next several months will also depend on 1979 crop prospects here and abroad. Right now, U.S. crop prospects for 1979 are anyone's guess. Watch for the January planting intentions report USDA will release on January 22 for a preview of coming acreage shifts. Present odds suggest that feed grain acreage won't change much next year and corn yields may not be as high as in 1978.

The 1979 Feed Grain Program

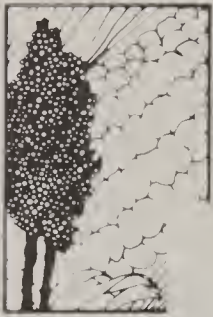
The choice is yours, and you'll want to weigh your decision carefully. The table below details the highlights of the 1979 program announced on November 11, and how they compare with 1978:

HIGHLIGHTS OF 1978 AND 1979 FEED GRAIN PROGRAM PROVISIONS

| | Corn | Sorghum | Oats | Barley |
|--|------|---------|------|--------|
| National average loan rate (\$ per bu.) | | | | |
| 1978 | 2.00 | 1.90 | 1.03 | 1.63 |
| 1979 | 2.00 | 1.90 | 1.03 | 1.63 |
| Target price (\$ per bu.) | | | | |
| 1978 | 2.10 | 2.28 | 0 | 2.25 |
| 1979 | 2.20 | 2.30 | 0 | 2.40 |
| Required set-aside (percent) | | | | |
| 1978 | 10 | 10 | 0 | 10 |
| 1979 | 10 | 10 | 0 | 20 |
| Diversion for payment (percent) | | | | |
| 1978 | 10 | 10 | 0 | 10 |
| 1979 | 10 | 10 | 0 | 0 |
| Diversion payment rate (cents per bu.) ¹ | | | | |
| 1978 | 20 | 12 | 0 | 12 |
| 1979 | 10 | 10 | 0 | 0 |
| Voluntary acreage reduction for full target price protection (percent) | | | | |
| 1978 | 5 | 5 | 0 | 20 |
| 1979 | 10 | 10 | 0 | 30 |

¹ Paid on normal production from producer's planted acreage.

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November 78

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Although the 1979 program is similar to 1978, there are three important changes:

1) Target prices were increased for corn, sorghum and barley providing additional incentive to participate in the set-aside program. Acreage diversion payments have been lowered for corn and sorghum and eliminated for barley. On balance, your guaranteed price protection on 1979 feed grain crops will be the same or higher than 1978.

2) If you decide to participate in the diversion for payment portion of the program, there will be no restriction on the acreage planted so long as your total plantings and set-asides do not exceed your farm's normal crop acreage. Remember, last year your 1978 plantings of feed grains could not exceed their 1977 level if you diverted acreage for payment.

3) You will need to reduce your 1979 plantings of corn and sorghum by 10 percent and barley by 30 percent to be guaranteed full target price protection on the normal production from the acreage you plant for harvest. This reduction is figured from 1978 plantings if you did not participate in the 1978 program. It would be based on

the total of acres planted, set aside, and diverted if you participated.

Remember, if you do not reduce your plantings, a minimum of 80 percent of your normal production will be eligible for target price protection.

A program allocation factor will be applied to acreage of participants who did not reduce their crops by the suggested percentages. It will be about a year from planting time before program allocation factors are known.

On balance, guaranteed returns to participants in 1979/80 are about the same as in 1978/79. If you know how the 1978 program works, you'll find it fairly easy to interpret the provisions for 1979. Your county ASCS office will have all the information on the 1979 feed grain program.

CORN PRICES

